

FISCAL POLICIES MANUAL	1
ACCOUNTS RECEIVABLE: CREDIT, COLLECTIONS, AND BAD DEBTS	1
PREFACE	1
DEFINITIONS	1
POLICY	2
FISCAL IMPACT	2
ADMINISTRATIVE PROCEDURES	3

FISCAL POLICIES MANUAL

ACCOUNTS RECEIVABLE: CREDIT, COLLECTIONS, AND BAD DEBTS

PREFACE

One of the more important assets of the State is its accounts receivable. Since the State is a non-profit service organization, accounts receivable primarily represents money the State has already spent for delivery of a service.

Generally a receivable arises when the State has a valid claim against an individual or another entity. Therefore, the creation of a valid claim signals the need to record an account receivable. The purpose of accounts receivable procedures is to record and maintain accounts of claims against others for the future receipt of money.

Accounts receivables are required to be recorded in the accounting system for all budgeted and unbudgeted revenues susceptible to accrual. Therefore, agencies record accounts receivable when the valid claim is billed, whether in the State's central accounting system, the agency's accounting system, or both.

Only revenues available and measurable are susceptible to accrual. At fiscal year end, the "available" amount must be adjusted for uncollectibles or bad debts based upon either past experience or management judgement.

DEFINITIONS

Available - Revenues are "available" during the fiscal year if collections could be used to pay liabilities arising from expenditures of that fiscal year.

Measurable - Revenues are "measurable" if the amount can be determined in advance of the collection.

Uncollectible - The amount due cannot be collected because the debtor cannot be located or does not have the ability to pay the amount owed or the cost of collection exceeds the amount due.

Receivables - Amounts due from transactions with entities outside the state entity. Disputes about "due from" transactions involving the inter-agency billing process should be directed to the State Controller's Office (SCO) or the Division of Financial Management (DFM).

POLICY

Each state agency granting credit, thus creating accounts receivable for the agency and the State, shall establish written credit and collection policies. The agency's written policies must be sufficiently specific and clear to serve as a day-to-day procedural guide for the agency's staff, and should include at least the following:

1. Credit Policy:
 - a. Identify the specific goods or services being provided for a fee, the statutory authority to provide such goods or services, the general credit terms in use, including credit limits and required collection period, and general trade practices for the extension of credit for such goods or services.
 - b. Provide general standards to determine if a credit risk should be accepted or rejected. Standards should be flexible enough to permit the exercise of some degree of judgement by agency management.
 - c. Provide specific standards to determine the type of credit risk for which a credit investigation will be made.
 - d. Identify the personnel, by position title at each organizational level, responsible for authorizing credit, including the maximum amount of credit that person may authorize.
2. Collection Policy:
 - a. Identify the collection method for overdue accounts, with specific justification for any deviation from established general collection procedures. If not self-evident, the justification must include an explanation of agency reasoning for the deviation.
 - b. Collection agencies may be used at the discretion of agency management.
 - c. Interest should be charged if doing so is in compliance with applicable Idaho Code, rules, and regulations.

FISCAL IMPACT

Control of accounts receivable, a key management process, consists of determining amounts due from others, billing them on a timely basis, recording them on a timely basis, and promptly collecting the amounts billed.

Failure to properly control accounts receivable, by omitting any of the above steps, can cause financial problems for a state agency. The longer a receivable is allowed to remain unpaid, the harder it becomes to collect. Additionally, the State loses interest revenue on the money that should be in the State Treasury.

ADMINISTRATIVE PROCEDURES

1. Each state agency has full responsibility for collecting its own accounts receivable. Each agency should establish written general procedures for its collection activities.

The following example of general procedures includes some *possible* components to consider:

- a. 30 days after original payment due date, a minimum of one follow-up billing should be sent to the debtor.
 - b. 60 days after the original payment due date, another billing should be sent to the debtor with a warning message, such as "This bill is overdue. Payment should be made immediately." (Follow-up telephone calls are effective.)
 - c. 90 days after the original payment due date, consider preparing a collection letter to send to the debtor.
 - d. 120 days after original payment due date, consider taking these further actions:
 - For all amounts, discontinue service and notify debtor, by letter, service has been discontinued (unless discontinuance is prohibited)
 - For amounts up to \$500, continue attempting to collect the debt by all available means, including collection letters and follow-up phone calls.
 - For amounts over \$500, consider the services of a commercial collection agency.
 - e. Consider writing off amounts turned over to a commercial collection agency based on some predetermined criteria, such as the following:
 - The amount is uncollectible.
 - The amount due is small enough it does not warrant the necessary collection expense (legal and administrative expenses would exceed the amount due).
 - The write-off shall not prejudice the position of the State.
 - f. Any amounts written off and then subsequently collected should be reinstated to accounts receivable and then recorded as a normal revenue receipt.
2. At fiscal year-end, Generally Accepted Accounting Principles (GAAP) requires that a determination be made between collectible and uncollectible receivables.
 - a. Each agency shall review its accounts receivables and determine the total amount deemed to be uncollectible.
 - b. For GAAP purposes only, an allowance shall be established for "doubtful accounts" and reported to the State Controller's Office, Division of Statewide Accounting.